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Globalization: New Pathways Along the South–South Axis

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The year 2018 was marked by escalation in trade tensions among the world's largest economies, mostly via bilateral trade restrictions. This was partly compensated by the advances in regional economic integration, particularly among the countries of the Global South, with the African Continental Free Trade Area (AfCFTA) being one of the most important advances in this direction. There is far more to come in 2019 in terms of regional economic integration, which is becoming the main neutralizing factor for protectionist pressures in the global economy. In particular, China is now emerging as one of the champions of trade integration and economic openness, with the Regional Comprehensive Economic Partnership (RCEP) potentially being the largest megabloc that could be launched in 2019. Furthermore, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11) comes into force on December 30, 2018, with significant liberalization impulses unlocked in 2019 on the back of implementation of this agreement.

While regional trading arrangements were long suspect of being potential stumbling blocks to globalism and multilateralism, in the current environment characterized by mounting protectionist pressures, regionalism may turn out to be one of the very few viable options in delivering liberalization impulses across the global economy. Indeed, this is precisely the pattern observed in the Trump era of rising trade barriers from the US – trade agreements are being reconsidered in the direction of greater protectionism (as is the case with the Trans-Pacific Partnership, NAFTA as well as trade bilateral agreements between the US and China), which is in part compensated by new regional integration agreements such as TPP-11 as well as RCEP.

Regionalism Versus Protectionism

In a world where global institutions prove to be too weak in the face of rising protectionist pressures, regionalism sustains the momentum in parts of the global economy towards greater openness and trade liberalization. In effect, the countries that launch protectionist policies lose the edge in forming and expanding their alliance networks even as other parts of the globe forge ahead with the formation of ever-greater trading blocs. Accordingly, when global trade rules fail, the changing combinatorics of regional alliances can put pressure on the protectionist countries to change policy course for fear of falling behind in the race to build extensive networks of economic partnerships. In other words, countries affected by protectionist policies can structure bilateral and regional alliances in such a way as to put pressure on protectionist countries to change their policy stance, and in the longer term this may turn out to be a heftier cost for protectionist countries than countermeasures in the form of reciprocal protectionism.

The positive impact of regionalism on the world economy would be even further enhanced if its evolution were not as haphazard and devoid of coordination among its various constituent parts. The lack of coordination among regional integration arrangements could be addressed on the global level via creating a comprehensive platform of regional governance that brings together all of the main regional integration arrangements. This new regional layer of governance may replicate some of the coordination mechanisms enforced among nation states.

There may also be a case for a set of core principles to govern this regional platform of cooperation:

- Mutual recognition;
- Representation in global organizations;
- Non-interventionism;
- De-politicization;
- Possibility of mutual representations/embassies.

The formation of a common regional platform may also be accompanied by an agenda for global governance that may target the following priorities:

- Dispute settlement among regional blocs and their members;
- Connectivity among the regional blocs pertaining to the same region/continent;

- Financial crisis resolution – leveraging the resources of regional financing arrangements (RFAs) to promote a regional resolution to the crisis and pan-regional measures to reduce economic vulnerabilities;
- Security issues – promoting greater security in coordination with global institutions;
- Financial market regulation;
- Cooperation on migration issues.

Ultimately, in the face of mounting protectionism regional impulses of trade liberalization will need to be also supported by reinforcement of the multilateral framework of the World Trade Organization (WTO). Members of G20 are preparing to advance proposals on revamping some of the key aspects of WTO operations, including the dispute settlement body as well as the scope and coverage of the global organization with respect to regional integration arrangements. The hope is that in 2019 realization of the economic costs of protectionism – including increasing market volatility, stock market declines, rising recession fears – will also lead to a reassessment of economic priorities amongst the largest players of the world economy.

New Impulses to Globalization: South–South Integration

The recent protectionist measures coming from the US appear to be particularly adverse for developing countries, and in seeking ways to neutralize the effects of such protectionism the developing world has achieved important progress. One venue that has already proven to be instrumental in boosting growth and modernization has been the rise in the South–South trade and the prioritization of South–South cooperation in trade and investment spheres.

The rising prominence of South–South trade and economic integration is borne out in the figures covering trade dynamics since the 1980s – these show that up until the current decade the volume of exports from the developing world has risen nearly five-fold, while the corresponding world growth figure amounted to a three-fold rise. More than a half of total exports from the South were accounted for by South–South trade flows.¹ By 2014, the value of South–South trade reached nearly \$5.5trn, which is close to the scale of North–North

¹ *Key statistics and trends in international trade. UNCTAD 2017. The status of world trade. New York and Geneva, 2018, p. 10.*

trade.² The higher potential residing in the South–South trade rests on a number of factors:

- Higher growth performance and future growth potential;
- Greater scope for trade liberalization, given that import tariffs remain elevated in the developing world;
- Greater scope for production-sharing given the similarity of levels of development and competitiveness;
- Strong complementarity in production and resource endowments between various segments of the developing world, including between the BRICS economies and low-income countries.³

The higher growth potential of developing countries that may in turn feed the higher growth in trade is reflected in the forecasts of international organizations. According to the WTO, GDP growth in the developing world is set to accelerate from 4.3% in 2017 to 4.6% in 2019, while the corresponding figures for developed economies point to a deceleration in growth from 2.3% to 2.2%, leading to a widening of the projected growth differential in the 2017–2019 period from 2% to 2.4%. With respect to exports, developing countries are expected to exceed developed countries' growth trajectory by around 2%, Asia being the main growth locomotive in terms of trade flows at over 5% per year in 2017–2019.

Most recently, South–South cooperation started to receive more of a boost from BRICS as the growth in all economies of the bloc entered into positive territory in 2017. In particular, despite occasional bilateral tensions, India and China staged a nearly 20% rise in trade turnover in 2017 to an all-time record of \$84.4bn. India's exports to China grew by 40% in 2017, while China for its part significantly increased its outward investment in India's economy. The trade turnover between Russia and China grew by 21% in 2017 and reached \$84bn, with growth of more than 20% in January–April 2018, putting mutual trade turnover on course to exceeding \$100bn in 2018.

Along with the acceleration in the South–South trade, regional integration is progressing further in the developing world against the backdrop of reversals in Europe and North America. In this respect, the activism of the Eurasian Economic Union (EAEU) in forging alliances with Southeast Asian countries such as Vietnam, the agreement between MERCOSUR and Southern African Customs

² *Ibid.*

³ Bernhardt, T, 2016, 'South–South Trade and South–North Trade: Which Contributes More to Development in Asia and South America? Insights from Estimating Income Elasticities of Import Demand', *CEPAL Review*, no. 118, April, p. 97-114.

Union (SACU), which is the first on the scale of ‘integration of integrations’, as well as the creation of a platform such as BRICS+ (potentially the most extensive South–South integration platform) – point to an important trend in economic integration that could serve to sustain world’s economic growth. The UN Conference on Trade and Development (UNCTAD) analysis of India’s and ASEAN’s regional trade agreements (RTAs) with other developing Asian economies reveals expanded opportunities for exports and economic growth. At the same time, UNCTAD notes that for the South–South economic alliances to be effective, they need to be accompanied by infrastructure development as well as lifting of non-tariff barriers.⁴

The growth observed in recent periods in the South–South trade as well as continued South–South trade integration, despite the challenges of global protectionism, lay a firmer foundation for building integration platforms across the developing world.⁵ These may range from standard free trade areas (FTAs) to investment platforms between national and regional development banks as well as sovereign wealth funds. For Russia, this is also an important trend to take into account in shaping its foreign economic strategy – the strategic Turn to the East needs to be part of a broader strategy of partnership with the entire developing world. The scope for forging such alliances in the Global South is enormous as is the potential growth and trade impulses emanating from mutual openness and inclusive development.

2018 as a Breakthrough Year for the Global South

As the year 2018 ended, it may be termed a breakthrough period in terms of the developing world advancing towards the goals of aggregating and structuring its economic integration platforms. The progress achieved thus far confounds the notion of a highly divided and fragmented Global South – the possibility of forming pan-continental integration platforms no longer appears unreachable, while forging of cross-continental alliances already appears to have been set in motion.

⁴ *South-South Trade in Asia: the Role of Regional Trade Agreements UNCTAD. 2008, p. xviii, https://unctad.org/en/docs/ditctabmisc20082_en.pdf*

⁵ *Lissovolik, Y, 2018, ‘The Integration Platforms of the Global South’, Valdai Discussion Club, April 30. Available from: <http://valdaiclub.com/a/highlights/the-integration-platforms-of-the-global-south/>*

In particular, there is the launching of a pan-continental free trade area in Africa – AfCFTA, as well as the recent headway in building links between the Pacific Alliance and MERCOSUR in Latin America. In July 2018, the first high-level meeting took place between the representatives of the two largest trade blocs that account for nearly 90% of the GDP of Latin America. One of the key aspects of the high-level meeting was the signing by the presidents of the two regional blocs of a letter of intent to create a regional trade agreement.

On the Eurasian front, recent periods witnessed the accession of India and Pakistan to the Shanghai Cooperation Organization (SCO) in 2017, which transformed the regional grouping into one of the largest blocs in the world economy and strengthened the case for the SCO to serve as a nucleus/key platform for integration among the developing countries of Eurasia. Outside of the core of SCO, important impulses towards closer partnership are taking place among the developing countries of Eurasia. In particular, in May 2018, Iran concluded a temporary FTA with EAEU, with the latter also signing a non-preferential agreement with China.

Apart from this, there is the intensification in cross-continental linkages involving pan-continental groupings such as the Community of Latin American and Caribbean States (CELAC), which is actively developing ties with China and Russia. Another important dimension to cross-continental South–South cooperation in this respect is the strengthening of the China–Africa partnership as well as the BRICS+ initiative, which received further impetus in 2018 during South Africa’s presidency in BRICS.

What emerges is a picture of increasing continental integration across all three continents of the South–South axis, with emphatic progress being made in 2018 in South America, Africa as well as Eurasia. Of the three continental groups, the greatest workload in completing the continental integration roadmap is in Eurasia, where much remains to be done in solidifying SCO, endowing it with more of an economic integration agenda, and extending its partnerships to other developing economies of the Eurasian world, such as Turkey, Iran, the Gulf states as well as ASEAN in the East.

With the significant progression in pan-continental economic integration across all three continental platforms, a new frontier opens up for developing economies in economic integration, namely the cross-continental trajectory that ties together the pan-continental trading arrangements in South America, Africa, and Eurasia. These sequential rounds of integration and liberalization will harbour the benefit of delivering strong impulses towards economic openness to the world economy slipping into increasing use of protectionist policies. Furthermore, such integration if achieved would

benefit the developing world by means of opening faster growing markets that at the same time are relatively more protected than those in the developed world (hence the higher is the preferential margin for the developing countries involved in trade liberalization).

The sequencing and the algorithm of how the formation of an extended South–South integration platform proceeds can follow multiple trajectories, including via the aggregation of the largest existing regional integration groupings led by the BRICS economies within the framework of BRICS+. However, a shortcut of sorts in pursuing such integration could be achieved through linking together the pan-continental integration platforms in South America, Africa, and Eurasia (represented by SCO+, CELAC and the African Union – referred to as the TRIA platform⁶). Importantly, this integration effort would be performed not via intermediation of global organizations or regional groupings of advanced economies but via a South–South exchange of trade preferences.

The benefits of concluding a transcontinental pact across the continental platforms of the developing world reside in significantly reducing the fragmentation of economic alliances in the developing world and raising the level of aggregation to the full potential of continental geography of the Global South. What this means for the world economy is a potential move to a different paradigm of diversified development instead of the rigid core–periphery pattern. It also raises the potential of the Global South to further shift the balance of economic weight into its favour as the liberalization impulses in the developing world could outpace those observed in the advanced economies.

Conclusion: In Search of a Global Integration Algorithm

In the end, the power of regional economic integration does not solely rest in expanding the growth opportunities for its members via lowering trade barriers and making goods cheaper for consumers. There are crucial external dividends that are reaped by successful and dynamic integration blocs, whereby soft power as well as the gravity pull of an expanding economic bloc improves the conditions for trade and investment with the outside world.

⁶ Lissovolik, Y, 2018, 'Imago Mundi: A South–South Concert of Continents', Valdai Discussion Club, January 31. Available from: <http://valdaiclub.com/a/highlights/imago-mundi-a-south-south-concert-of-continents/>

In economic integration success breeds success in many respects, including in terms of creating a sufficiently large economic mass whose gravity pull (in terms of the gravity model in international trade) becomes progressively stronger with respect to neighbouring economies. A case in point in this respect is the evolution of the EU integration that followed the pattern of building a critical mass of large economies in Europe with France and Germany as the key heavyweights. This served to attract trade flows away from neighbouring economies. The result of the gravity pull of trade flows was the so-called domino effect that led to more and more European countries opting to join the ever-expanding and massive European Union. Times have changed since, and with the EU facing the Brexit challenge, the next 'integration growth' cycle may be performed by the Global South, whose nation states and integration blocs are still largely fragmented, most notably in Eurasia.

The current system of a well-integrated developed world and a largely fragmented Global South may persist for quite some time lest developing economies step up their efforts to bring together their existing integration blocs within unified integration platforms. The first undertaking in this process could be directed at building a critical mass first in Eurasia via bringing together India, China, Russia within an enlarged SCO format – SCO+, which forms the basis for attracting other regional blocs of the Global South in Eurasia, such as ASEAN, into the most extensive platform for developing countries in the continent. This also forms the basis for engaging the EU in a more active economic cooperation with the developing economies of Eurasia, while at the same time an enlarged SCO+ could also facilitate the creation of a global platform for South–South integration either on the basis of BRICS+ or TRIA.⁷

The corresponding sequencing of building a global framework of South–South cooperation that becomes significant enough to engender full-scale cooperation with the developed world may progress along the following stages:

- The Russia–India–China triangle: closer coordination among India, Russia and China in promoting SCO as the core integration platform for the developing economies of Eurasia;
- The Grand Eurasia: building an enlarged SCO+ framework that is large enough to engender closer ties with the EU in building a pan-continental alliance and forging ahead with connectivity integration;

⁷ See: Lissovolik, Y, 2018, 'Imago Mundi: A South–South Concert of Continents', Valdai Discussion Club, January 31. Available from: <http://valdaiclub.com/a/highlights/imago-mundi-a-south-south-concert-of-continents/>; Lissovolik, Y, 2018, 'The Integration Platforms of the Global South', Valdai Discussion Club, April 30. Available from: <http://valdaiclub.com/a/highlights/the-integration-platforms-of-the-global-south/>

- The integration of the Global South: building a BRICS+/BEAMS⁸ and/or TRIA framework that attracts other regional blocs from the developing world into forming ever broader coalitions and megablocs of the Global South;
- A global North–South global platform: an enlarged integration platform of the Global South is likely to exert a stronger gravity pull vis-à-vis the developed world, including with respect to coordinating the creation of North–South integration frameworks/fora.

It hence appears that there is a certain sequencing that could be followed in building a more balanced global economic architecture. The most important part of the sequencing has to do with addressing the fragmentations and gaps in the regional layer of global governance (most notably within the Global South) that has become increasingly critical in the past decades for development and maintenance of macroeconomic stability. The attainment of a more coordinated framework in relations between developed and developing economic integration platforms is unlikely to exhibit breakthroughs without more active steps on the part of the Global South towards forging South–South integration. For the developing world, the two key integration tools in attaining greater connectivity with the developed economies have to do with the SCO+ framework (for building cooperation with the EU in Eurasia) and the BRICS+ framework (for engendering greater cooperation from the developed world on the global level).

Sustainable globalization or economic integration is unlikely to be secured solely on the level of global economic organizations and without progress in building a coordinated framework among the largest regional integration arrangements. Rather than performing minor adjustments to the system of global institutions, a comprehensive revamping of the regional layer of global governance and its greater consistency with other layers of global governance – may be the key to a successful restructuring of global economic architecture. In this respect, the Global South is likely to play an increasingly important role in shaping regionalism and a global economic architecture of the future.

⁸ *The platform that brings together the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), Eurasian Economic Union (EAEU), African Union (AU), MERCOSUR and Shanghai Cooperation Organization (SCO).*



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